



TOP 10 SCAMS

Here is a list of some of the frauds regulators are faced with every day. Recent additions are pricey day-trading seminars, supposedly high-yielding promissory notes and investments on viatical settlements (life insurance policies on terminally ill people). Securities fraud costs Americans billions of dollars each year.

In today's society, we have ideal conditions for fraud. Millions of new investors, some looking for unrealistic high returns, are looking for places to invest. The Internet technology creates an ideal environment for investors and con artists alike. By the time regulators are notified, the investor's money is gone and is rarely recovered. Investors must learn to protect themselves against fraud. Learn to be skeptical and use common sense.

Here is the list, ranked roughly in order of seriousness or prevalence:

Internet Fraud. Con artists are using the Internet to “pump and dump” small stocks, peddle bogus offshore “prime bank” notes and perpetrate fraudulent pyramid schemes. Some states have programs to monitor the Internet for fraud and they regularly team up with other regulators for Internet “Surf Days”. The Internet is like a big city, with good neighborhoods and bad neighborhoods and investors need to be careful about taking advice from strangers. Never invest based on a “tip” on the Internet without doing independent research. You never know who is offering you the “help”.

Investment Seminars. Investors should be very wary about expensive seminars where self-anointed gurus imply you can get rich quick. Some people do get rich but usually they are the ones running the seminar, making money from admission fees, and selling their books and audiotapes. Seminars are marketed through newspaper, radio and TV ads and “infomercials”. Recently promoters have begun offering seminars and courses promising to turn investors into successful stock “day traders”. Day trading, more akin to gambling than investing, is inappropriate for the vast majority of investors.

Affinity Group Fraud. Members of closely-knit religious, political, community or ethnic groups fall prey to affinity group fraud, in which a con artist claims to be a member of the same ethnic, religious, political, career or community-based group. Crooks seek to take advantage of our natural trust of people who are like us. Targeted media advertising is used to identify potential victims, often with offers of employment or financial advice. Scammers promoting bogus foreign exchange investments, for example, have victimized California’s Asian communities. Typically promoters steal the money and no investments are made.

Abusive Sales Practices. State and other securities regulators report progress in the fight against “microcap” stock fraud by suspending, barring and criminally prosecuting brokers who specialize in the manipulation of low-priced securities. Nevertheless, investors need to be on guard and should hang up on aggressive cold callers.

Telemarketing Fraud. New “boiler rooms” (high-pressure telephone sales operations), open all the time, selling illegal or fraudulent investments. Promoters try to capitalize on the headlines – from fears over the Asian currency crisis to breakthroughs in computers or biotechnology. One way vulnerable investors can protect themselves is to use their telephone answering machine to screen their calls and not even answer solicitations by cold-calling salespeople.

Promissory Notes. A growing area of fraud, these notes are supposedly “insured” and backed by real assets. In fact, they are backed only by an often-worthless promise to repay. They offer high interest rates to investors who may be struggling to get by on income from money markets funds or certificate of deposits. These “investments” are often sold by life insurance agents, lured by high commissions, who may know nothing about the promoters of the investments beyond what they were told. The agents also may not realize they have to be licensed as securities brokers with state securities regulators to sell these notes. In most cases, the notes also must be registered with regulators. Multi-state investigations have revealed that several of the promoters of these notes have had problems with regulators in the past. Some notes are issued on behalf of companies that do not even exist. Even if the companies are legitimate, investors should realize that the reason these notes are being offered directly to small investors is that banks and venture capitalists have declined to invest in the companies.

Viatical Investment Swindles. One of the hottest new investment products and one of the riskiest, viatical contracts are interest in the death benefits of terminally ill patients. The insured

gets a percentage of the death benefit in cash, supposedly to improve the quality of their lives in the last days. Investors get a share of the death benefit when the insured later die, after a fee is paid to the viatical investment broker. Because of uncertainties predicting when even a terminally ill person is going to die, these investments must be considered extremely speculative.

Entertainment Fraud. Con artists zero in on investors hoping to hit it big by buying a piece of the next "Titanic". Besides movies, investment vehicles include cable television shows, video games and other entertainment products.

Ponzi/Pyramid Schemes. Always in style, these swindles promise high rates of return to investors. But, the only people who really make a large profit are the promoters who set them in motion, at the expense of and out of funds from later investors, who end up losing their money when the house of cards inevitably collapses.

Illegal Franchise Offerings. States have taken action relating to inadequate disclosure and fraud involving franchise investments, often marketed as business opportunities and franchise trade shows where promoters target people attracted by the prospect of owning their own business.

Before making an investment or doing business with a stock broker or investment promoter, call:

Department of Commerce & Consumer Affairs
Business Registration Division
1010 Richards Street
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(808) 586-2740
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